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Spain

Retail Food Sector

Report

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Report Highlights:

The food distribution sector continues to be more concentrated, more mergers took place in 2000. The number of medium size supermarkets and discount outlets has increased again. Establishing and maintaining relationships with importers/distributors in key to penetrate Spain's retail food market.

Includes PSD changes: No
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I. Market Summary

Spain's food distribution sector is similar as in other European countries, particularly within the European Union, and to most developed countries around the world. In general, the sector is more concentrated and specialized, with greater market power held by fewer companies. Since the early '70s the number of grocery outlets has been decreasing to almost one third, and since 1993, about 25,800 small retail shops have been closed. At the beginning of 2001, there were only 36,361 traditional outlets, while the number of hypermarkets and supermarkets has increased. It is estimated that by 2005, only half of the traditional outlets currently operating will remain in the business. Nevertheless, according to the Ministry of Agriculture about 50 percent of sales of fresh products take place in the traditional outlets.

During the last few years the number of medium size supermarkets and discount outlets has increased, while the growth in the number of hypermarkets has slowed. The market share of sales in the hypermarkets decreased by 3.5 percent, to 31.8 percent of total sales within the so-called "Self-service sector". Within the supermarkets those that hold a higher market share, of 27.3 percent, are the outlets with an area of between 401 and 1,000 square meters. The hard discount outlets are still new players in the Spanish distribution system. In Spain the first hard discount outlet was opened in 1994 by Lidl and it is expected that this sector will continue growing. The Cash & Carries are enjoying continuously increasing demand from the HRI sector.

As in other EU countries and indeed throughout the world, food marketing in Spain is also increasingly dominated by fewer companies. In Spain in 2000, the first five companies represented 52 percent and the first ten companies hold 74 percent of total sales.

1999 and 2000 saw a large amount of consolidation in the food distribution sector. In 1999, the merger between Promodes and Carrefour took place, which were the Continente and Pryca chains, in Spain. Total sales of this group in 2000 reached 9.88 billion Euros and represented a market share of 26 percent. In order to be within the maximum market share allowed to be held by a single company or group, the new company had to sell some hypermarkets, supermarkets and discounts, which were bought by El Corte Ingles, Eroski, Auchan and other smaller companies. In addition, other distribution companies like Ahold and Superdiplo bought other supermarket chains and merged. The name of the supermarkets of this new group is "SuperSol". There are some Spanish companies that are expanding in an attempt to compete with the Carrefour group, Eroski ranks second with 4.2 billion Euros, followed by El Corte Ingles and Mercadona.

Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are two large groups: Euromadi Iberica and IFA Española.

Food producers are concerned about the increasing power that these groups are gaining, complaining that their market position allows them to exact lower prices from farmers and manufacturers. To allow consumers to be aware of the margins, some farmer organizations have called for a labeling system that would show the purchase price as well as the retail sale price of any fresh product. Meanwhile, the food sector companies report fierce competition, lower prices, and narrower profit margins.

While consumption patterns have changed along with the structure of the retail industry, many consumers still prefer to make frequent purchases at neighborhood supermarkets, as well as at the traditional fresh products outlets particularly for bread, fruit, seafood or meat products. They generally venture to hypermarkets weekly or monthly to buy non-perishable products. As a result of this practice, the number of medium size supermarkets is growing. To be in line with this trend El Corte Ingles has opened some supermarkets outside its department stores, under the brand name of "Superecor" as well as convenience stores under the name of "Opencor". This group has an agreement with Repsol to open the latter type of outlets in gas stations, offering a wider range of products than its competitors in this sector.

Some retail grocery outlets have within their premises small areas where they offer gourmet products, or ready-to-eat food. The home meal replacement concept is starting to take hold as a high value added product offered by the sector.

Total food production in 2000, was valued at 55 billion Euros, a current value increase of 2.1 percent, but a decrease of 0.91 percent in total production. Spanish consumers spent 56.49 billion Euros, representing an increase of 6.8 percent in value from 1999, while total consumption increased by 1.2 percent. The products that experienced a higher increase were meat, seafood, dairy products, fresh fruits and vegetables, and ready-to-eat products. Total grocery sales in 2000 through food distribution chains or groups were 46 billion Euros, an increase of 6.2 percent from the previous year. About 26.4 percent of total food expenses took place through the HRI sector.

Currently, the Spain's typical consumer can be characterized as more health conscious, demanding more information about products, and placing a premium on quality and services.

Table I - Number of Retail Outlets

<i>Type of Outlet/Year</i>	1999	2000	2001
Traditional	44,374	41,239	36,361
Self-Service > 100 sq. meters	13,474	13,209	12,488
Supermarket: 100 to 400 sq. meters	7,963	8,252	8,712
Supermarket: 400 to 1000 sq. meters	3,159	3,332	3,574
Supermarkets: 1,000 to 2,500 sq. meter	904	981	1,137
Hypermarkets	298	306	318

Source: AC Nielsen

**Table II - Percentage of Total Food Sales
by Type of Outlet and Product - 2000**

<i>Product/Outlet</i>	Hypermarkets	Supermarkets 1,001-2,500 sq.m	Supermarkets 401-1,000 sq.m	Supermarkets 100-400 sq.m
Dry Products	29.3	17.6	28.2	24.9
Canned Prod	31.1	18.6	27.6	22.7
Milk and shakes	28.9	16.7	29.6	24.8
Beverages	36.6	18.5	25.3	19.6
Fresh Products	16.6	20.7	20.9	22.6
TOTAL	31.8	17.8	27.3	23.1

SWOT for U.S. grocery products

Strengths	Weaknesses
U.S. food products are appreciated for their novelty	The product has to be labeled in Spanish
Many U.S. products are known as quality products	Not all the products are in line with the Spanish taste
Attractive packaging	Need large investment to promote new products
Many niche markets for some U.S. products	Lack of knowledge of many U.S. brands
Opportunities	Threats
The American way of life is popular among the younger generation.	Stiff competition from similar food products produced in other EU countries.
Many U.S. TV shows and films show U.S. food products.	Import duties increase U.S. product final price.
Spanish consumers want to try new and quality products.	High US\$/Euro exchange rate.
	Transportation cost.

II. Road Map for Market Entry

Entry Strategy

As stated above, the retail market in Spain is very concentrated. It is very difficult for an individual exporter to establish direct relations with the firms that control most of the business as they prefer to deal with their customary importers/distributors. Furthermore, in general, they do not import the products directly, so it is essential that U.S. exporters wishing to crack this market establish relationships with their distributors. The new to the market exporter should find an importer, agent or wholesaler that will do customs clearances and will advise on compliance with labeling, packaging, and sanitary regulations. Some supermarket chains, however, are directly importing certain products, such as walnuts or pulses, to be repacked in their warehouses.

An important method for finding an importer, agent or distributor for U.S. products is to exhibit at trade shows. Alimentaria, held every other year in early March in Barcelona (and in Portugal in the alternating years), is the leading food show in Iberia, and an excellent venue for introducing a new product and for meeting potential clients and establishing relationships.

Distribution Channels

Fresh products, seafood, fruits and vegetables are distributed through the 22 wholesale markets located around Spain. The main grocery retail chains have their own stand in the main cities, where they receive and buy fresh product from wholesale companies that is later sent to their supermarkets. Purchases of grocery products are managed directly by each group. Distribution companies or chains request that the products they purchase be delivered to their platforms or warehouses and then are distributed to each outlet.

Table III - Company Profile - Main Grocery Retail Chains - 2000

Name of Outlet	Ownership	Sales in Million Euros	No. of Outlets	Purchasing Type
IFA Española	Spanish	10,124	4,397	Importer/Distributor
Euromadi Iberica	Spanish	9,556	14,635	Importer/Distributor

Table IV - Company Profile - Main Food Distribution Companies

Retailer Name	Ownership	Sales in Million Euros	Number Outlets	Area Sq. m	Purchasing Agent Type
Grupo Carrefour	French	6,899	1,920	1,947,492	Importer/Distri-butor - Direct
Eroski	Spanish	4,208	868	771,707	Importer/Distri-butor - Direct
El Corte Ingles	Spanish	3,250	99	289,540	Importer/Distri-butor - Direct
Mercadona	Spanish	3,124	493	505,506	Importer - Direct
Auchan (Alcampo)	French	3,025	141	502,612	Importer/Distri-butor - Direct
Ahold	Dutch	1,852	1573	478,819	Importer/Distri-butor
Caprabo	Spanish	1,304	319	285,570	Importer/Distri-butor - Direct
El Arbol	Dutch	961	724	363,800	Importer/Distri-butor
Lidl	German	691	319	250,338	Importer/Distri-butor - Direct
Grupo GADISA	Spanish	612	218	125,128	Importer/Distri-butor - Direct

III. Competition

The food industry in Spain is highly industrialized and competitive. Spain is a major food producer, offering an increasing range of processing products. Large distribution chains and supermarkets have their own private label brands and offer good quality products at lower prices than traditional brands. In addition to the domestic sector, neighboring EU countries, the source of most food imports, offer a generous supply of competitive products. In addition to these prices and logistical advantages, food distributors generally source their products from Spanish producers or from other EU markets, because they are also more apt to comply with EU regulations.

U.S. exports of consumer oriented products to Spain were \$131 million in 2000, with treenuts accounting for sales of \$103 million. U.S. exports of seafood products reached \$63.5 million, an increase of 7.6 percent in comparison with the previous year; a further increase is expected for 2001.

- Private Label

This is an area that has been growing steadily. Sales of products under the distributor label were 4,650 million Euros in 2000, an increase of 18 percent from the previous year. The tendency is that they will continue this upward trend as distributors obtain more benefits due to the higher sales margins and higher sales. The goal of distributors is to sell good quality products at lower prices.

During the first stage of sales of the private label products the idea was to compete with price. This concept has evolved and now the distributors offer good products that are guaranteed with their name. This is the so-called "fourth generation" of private label products. In line with the French model, the country of origin of the main players in Spain's distribution sector, it was the logic path to follow.

As indicated above, this sector is growing and the sales percentage of the distributors is not as high as in other European countries. For instance for Grupo Carrefour these products represent 19 percent of its total sales, eight percent for Auchan and Caprabo, 25 percent for Mercadona. These percentages are higher in the discount distributors, reaching 60 percent in the case of DIA and higher for Lidl and Tengelmann.

The products with higher sales under the private label are: Dairy products, oil, canned seafood, canned vegetables, bread and pastry, and nuts.

Sales of "Private Label" products by type of outlet

Type of Outlet	Percentage
Supermarket: 100 to 400 sq. meters	30.3
Supermarket: 401 to 1000 sq. meters	27.2
Supermarket: 1,000 to 2,500 sq. meter	21.7
Hypermarket	13.4
TOTAL	22.6

IV Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

Seafood in general, and lobster, whiting, squid, salmon, in particular	
Treenuts: almonds and walnuts	Pet foods
Tex-Mex products	Bourbon
Ready-to-eat products	

B. Products not present in significant quantities but which have good sales potential are as follows:

Quality fresh fruit: pink grapefruit, apples	Surimi
Processed fruit & vegetables and juices	Cake mixes
Snacks	Beer

C. Products not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

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For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site:
<http://www.embusa.es> or <http://www.fas.usda.gov> then look under countries - Spain

NOTE: Average exchange rate: 1998: 149.40 pts/\$1; 1999: 156.33pts./\$1; 2000: 180.68pts/\$.
Current exchange rate: 184 pesetas/\$